MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2017/2018

ULE2612 – LAW AND ECONOMICS

(All Sections / Groups)

6 JUNE 2018
Reading Time: 9.00 a.m. – 9.15 a.m.
(15 Minutes)
Answering Time: 9.15 a.m. – 12.15 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. Students will have **fifteen minutes** during which they may read the paper and make rough notes ONLY in their question paper. Students then have the remaining **THREE HOURS** in which to answer the questions.

2. This Question paper consists of 3 pages with 4 questions only.

3. Attempt ALL questions. All questions carry equal marks and the distribution of the marks for each question is given.

4. Students are not allowed to bring in any statute or calculator into the Examination Hall.

5. Please write all your answers in the Answer Booklet provided.

QUESTION 1

Explain in detail Ronald H. Coase's three major contributions to law and economics.

(Total: 25 marks)

QUESTION 2

Choose either (A) or (B).

(A)(i) Define the positive Coase Theorem.

(5 marks)

(ii) In *Spur Industries, Inv v Del E. Webb Development Co*, 108 Ariz. 178 (1972), the respondent was a housing developer whose project started to edge towards a cattle feedlot operated by the appellant. Smell from the feedlot cause the houses to be not fit for use.

Assuming that the profit from the potential sale of the houses is $100 million, cost to move the feedlot away is $10 million, cost to buy up the feedlot is $20 million, and that there is no other viable solution to the smell problem.

Prove the positive Coase Theorem using the above figures.

(20 marks)

(Total: 25 marks)

~~~~~ OR ~~~~~

(B)(i) Explain, with suitable models, the advantage of setting damages for contract breaches at expectation measure.

(20 marks)

(ii) Explain the economic role of liquidated damages in contracts.

(5 marks)

(Total: 25 marks)

Continued...
~~~~~

QUESTION 3

Answer either (A) or (B).

(A)(i) Explain under which conditions a monopoly is considered as inefficient.

(10 marks)

(ii) Acme Sdn Bhd is Malaysian company offering pet-grooming services for cats and dogs. Acme has many outlets around Semenanjung Malaysia and by far is the most famous and popular business of its kind. It commands at least 70% of the market share in this segment.

Boo Sdn Bhd is a competing pet-grooming service in Melaka. Boo is an older establishment than Acme, and as such it has a steady stream of customers who are familiar with Boo's services. In order to increase its business, the manager of Acme is meeting the owners of Boo to discuss a plan to buy up Boo's business and convert it into an Acme branch.

Analyse the above situation in light of the Malaysian Competition Act 2010, and which regulatory paradigm the Malaysian Competition Act adopts in relation to the above scenario.

(15 marks)

(Total: 25 marks)

~~~ OR ~~~

(B)(i) Using a suitable model, explain how a Pigou tax may be used to internalise the cost of pollution.

(15 marks)

(ii) Every year, about 20,000 individuals die as a result of illnesses such as cancer, from smoking. The cost of medical treatment and wasted opportunities due to shorten lifespan amounts to hundreds of thousand each.

Identify three workable strategies, together with suitable economic explanations, to mitigate this problem.

(10 marks)

(Total: 25 marks)

Continued...
~~~

QUESTION 4

The doctrine of *uberrima fides* (Latin: utmost good faith) in insurance law was introduced by Lord Mansfield in *Carter v Boehm* (1766) 3 Burr 1905 (KB):

> Insurance is a contract based upon speculation. The special facts, upon which the contingent chance is to be computed, lie most commonly in the knowledge of the insured only; the underwriter trusts to his representation and proceeds upon the confidence that he does not keep back any circumstance in his knowledge, to mislead the underwriter into a belief that the circumstance does not exist, and to induce him to estimate the risk as if it did not exist. Good faith forbids either party by concealing what he privately knows, to draw the other into a bargain from his ignorance of that fact, and his believing the contrary.

(a) Using an appropriate diagram, explain why the problem of adverse selection occurs in insurance market when different types of insured persons have private information which is not observable by the insurer.

(20 marks)

(b) Explain the use of a medical examination to overcome the problem of adverse selection in health insurance.

(5 marks)

(Total: 25 marks)

End of Page